

HOUSING

T E N N E S S E E

2nd Quarter 2017

Tennessee dashboard 2nd quarter 2017

(percent change over the year)

Weekly Unemployment Claims	▲	2.41	Total Home Permits*	▲	+19.4
Total Nonfarm Employment*	▲	+1.96	Mortgage Tax Collections	▼	-6.68
Unemployment Rate (percentage points)*	▼	-0.53	Real Estate Transfer Tax Collections	▲	+2.68
Homeowner Vacancy Rate (percentage points)	▼	-0.50	Home Prices*	▲	+7.5
Rental Vacancy Rate (percentage points)	▲	+0.5	Mortgages Past Due (percentage points)	▼	-0.65
Single-Family Home Permits*	▲	+12.5	Foreclosure Rate (percentage points)	▼	-0.05

*seasonally adjusted ▲ positive outcome for economy ▼ negative outcome for economy

Economic Overview

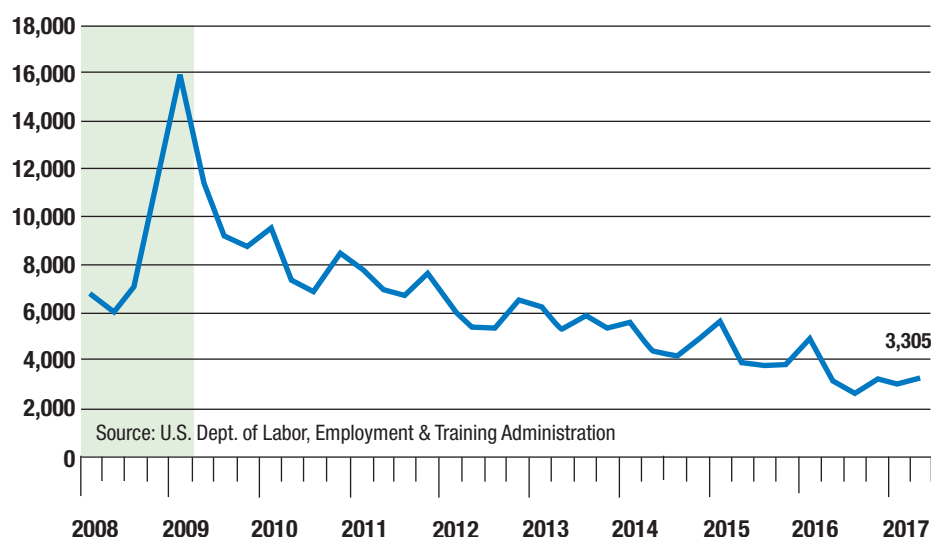
Tennessee's housing market continued to grow in the second quarter of 2017. As evidenced by the selected employment indicators, the economy registered a positive performance for the quarter. Perhaps the largest improvement was in the state unemployment rate, which dropped 1.17 percentage points to 4.1 percent from the first quarter of 2017. Total employment was up 2 percent over the year and almost 1 percent from the previous quarter. The number of unemployed dropped significantly, falling 9 percent over the year and over 22 percent from the first quarter.

Tennessee's economy registered a positive performance for the quarter.

Nonfarm employment kept growing, as Tennessee added nearly 60,000 jobs, representing almost 2 percent growth from the second quarter of 2016. In terms of specific industries, those showing the largest employment increases since the second quarter of 2016 were the goods-producing (2.6 percent) and services-providing (1.8 percent) sectors.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



The state unemployment rate dropped 1.17 percentage points to 4.1 percent for the quarter.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2016.2	2016.3	2016.4	2017.1	2017.2
Employment by industry (nonfarm)					
Total nonfarm	2,955	2,977	2,991	3,008	3,013
Goods-producing sectors	461	465	465	473	473
Manufacturing	343	345	344	347	348
Services-providing sectors	2,494	2,512	2,526	2,535	2,540
Labor force	3,128	3,151	3,166	3,194	3,180
Total employment	2,983	2,999	3,005	3,026	3,049
Unemployed	145	153	161	168	131
Unemployment rate	4.63%	4.83%	5.07%	5.27%	4.10%

Source: Bureau of Labor Statistics

¹ Selected employment indicators from past quarters have been updated to reflect the new 2016 benchmarking by the Bureau of Labor Statistics (www.bls.gov).

Tennessee added nearly 60,000 jobs, representing almost 2 percent growth over the year.

Vacancy Rates

Tennessee homeowner and rental vacancies both decreased in the second quarter.

Homeowner and rental vacancy rates for the second quarter suggest a vibrant housing market, as both rates declined. Following the trend in previous quarters, Tennessee's homeowner vacancy rate is lower than that of the United States. For the second quarter, the homeowner vacancy rate was just 1.2 percent, compared to 1.5 percent for the country.

In comparison, the state's rental vacancy rate is higher than the nation's as a whole, as it has been since mid-2015. For the second quarter of 2017, the rental vacancy rate for Tennessee was 7.5 percent, versus 7.3 percent for the nation.

Over the year, the homeowner vacancy rate is lower while the rental vacancy rate is higher, for both the state and the nation.

Figure 2. Homeowner vacancy rate

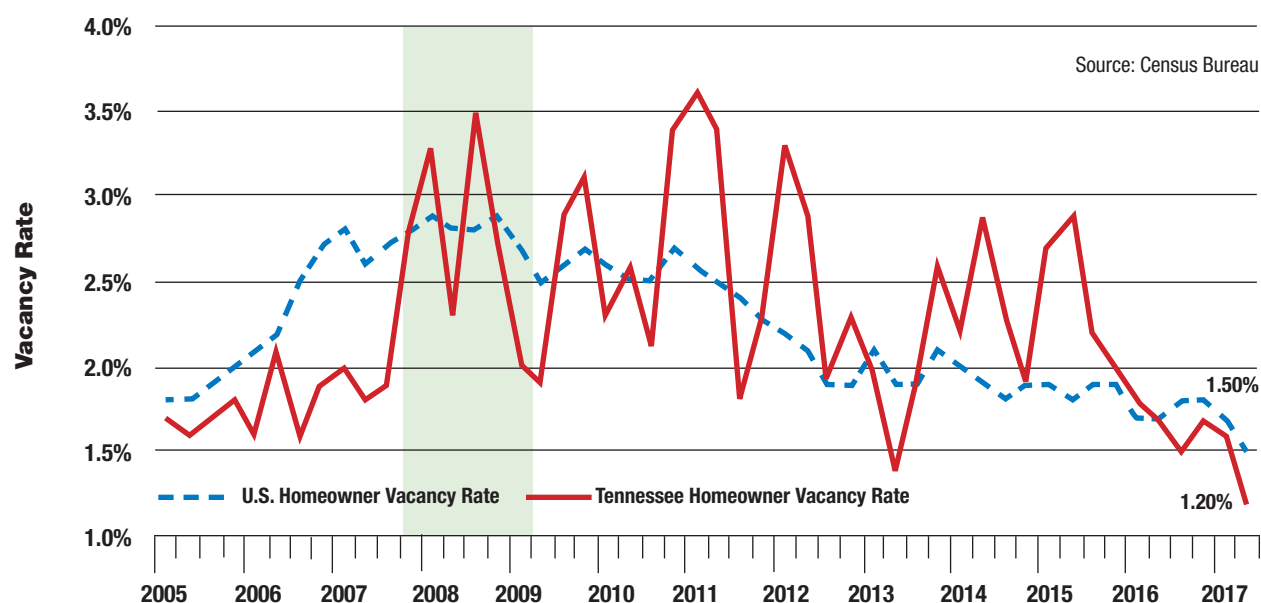
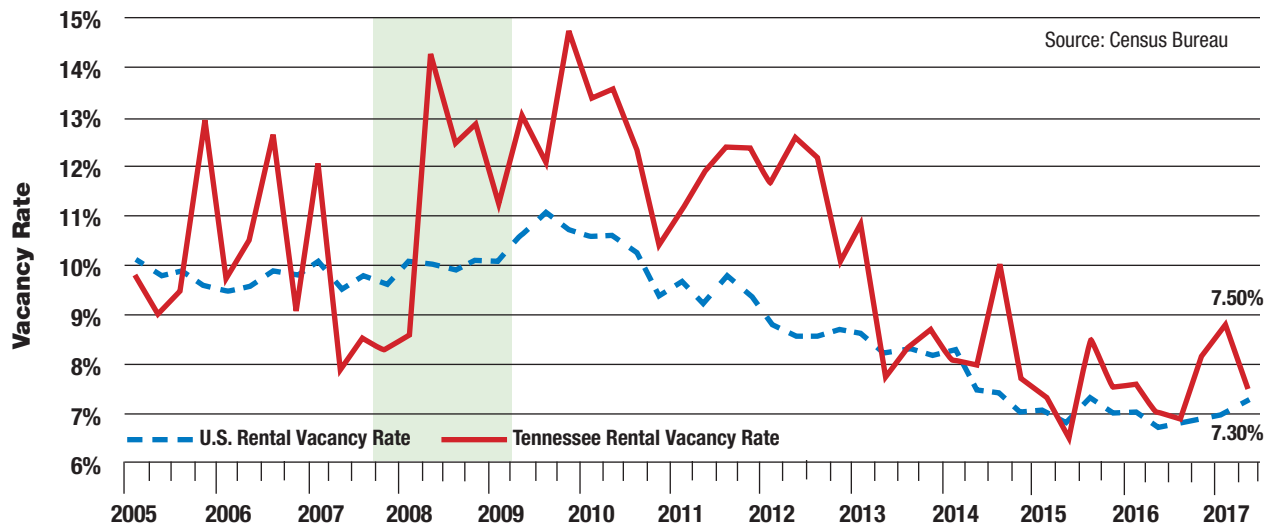


Figure 3. Rental vacancy rate



Housing Construction

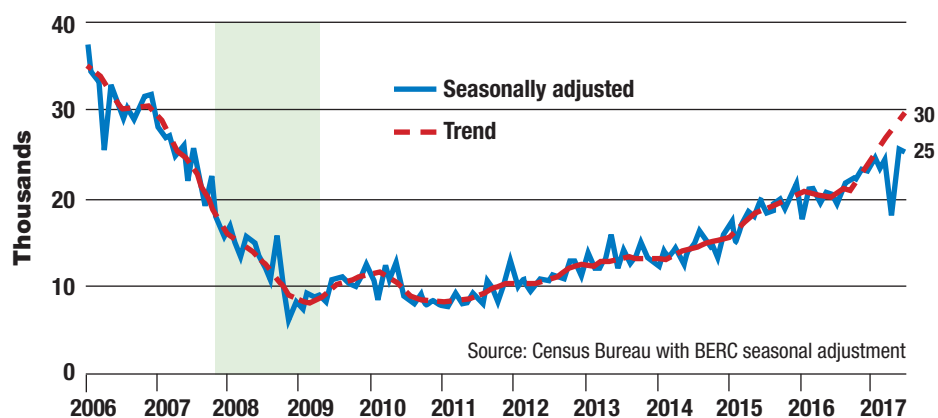
Tennessee's construction is increasing in the area of multi-family and total permits.

New construction is slowing down in the South and for the country as a whole. However, for Tennessee, new construction is still increasing in the area of multi-family and total permits. Tennessee's multi-family permits increased 47 percent from the previous quarter and 34 percent over the past year. Similarly, total permits increased 14 percent this quarter and 19 percent over the year.

For the South and the United States, the number of permits generally decreased or remained unchanged in the second quarter. Over the year, single-family permits were up 12 percent for the South and 10 percent for the nation. Total permits are up 6 percent in the South and 8 percent for the United States.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



**Tennessee's
multi-family
and total
permits
are still
increasing.**

Table 2. Permits issued for privately owned new housing

(thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2014.2	16.4	331.0	618.7	7.2	167.0	379.5	23.7	491.3	1,013.7
2014.3	18.5	347.9	634.8	3.9	163.4	404.7	24.0	518.1	1,047.0
2014.4	17.5	350.7	645.4	12.9	176.5	413.2	29.7	526.7	1,049.9
2015.1	20.3	357.1	648.9	7.7	179.6	444.4	27.8	534.5	1,079.4
2015.2	22.4	373.0	685.4	10.6	193.1	566.8	33.8	562.3	1,253.3
2015.3	23.0	378.6	698.8	9.2	180.2	425.3	33.0	564.4	1,129.2
2015.4	24.0	388.2	708.0	16.5	198.7	490.9	38.8	586.5	1,198.9
2016.1	23.6	387.6	727.6	17.8	186.4	426.2	39.9	571.9	1,156.2
2016.2	24.2	400.7	746.9	8.5	178.1	400.6	33.7	575.5	1,140.3
2016.3	25.6	403.2	739.1	9.8	179.7	442.7	35.9	588.0	1,186.8
2016.4	27.8	416.5	773.9	9.5	155.2	439.3	36.0	572.1	1,206.4
2017.1	28.9	449.4	812.6	7.7	169.7	450.0	35.3	621.7	1,258.6
2017.2	27.2	447.4	818.0	11.4	168.9	418.8	40.2	607.9	1,235.9
Change from previous quarter	-6%	0%	1%	47%	0%	-7%	14%	-2%	-2%
Change from previous year	13%	12%	10%	34%	-5%	5%	19.39%	6%	8%

Source: Census Bureau

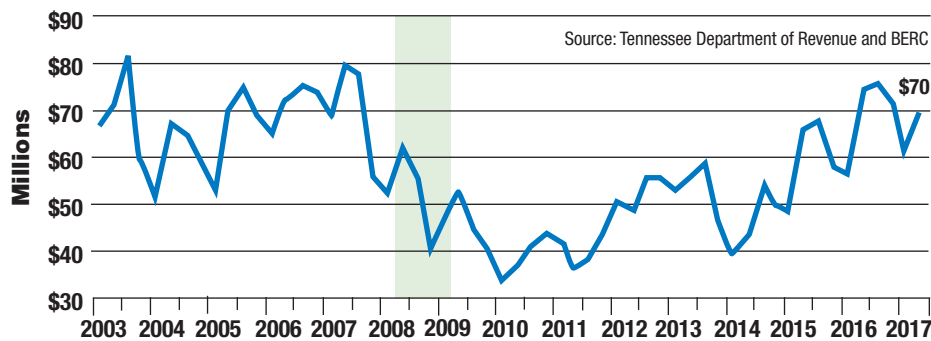
Real Estate Transactions & Mortgages

Both mortgage and real estate transfer tax collections rose in the second quarter from the first quarter. Mortgage tax collections rose over 14 percent from \$61 million to nearly \$70 million for the quarter but fell 7 percent over the year. However, mortgage tax collections are significantly higher than in years past and remain at one of the highest post-recession levels.

Real estate transfer tax collections were up for the quarter and over the year. The annual rate rose over 23 percent this quarter from \$134 million to \$166 million. Compared to the second quarter of 2016, the annual rate of collections was up over 2 percent. Real estate transfer tax collections are at the second-highest rate since the recession.

Figure 5. Mortgage tax collections

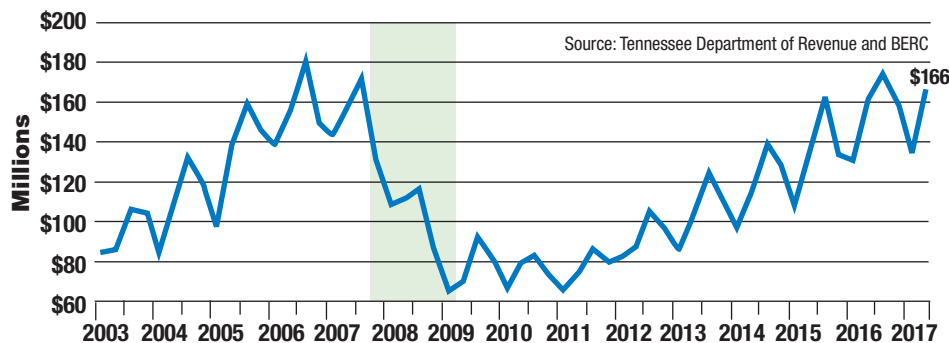
(millions, seasonally adjusted annual rate)



Mortgage tax collections rose for the quarter but fell over the year.

Figure 6. Real estate transfer tax collections

(millions, seasonally adjusted annual rate)



Real estate transfer tax collections were up for the quarter and over the year.

Home Sales*

Data show that inventory is decreasing and closings are starting to slow down.

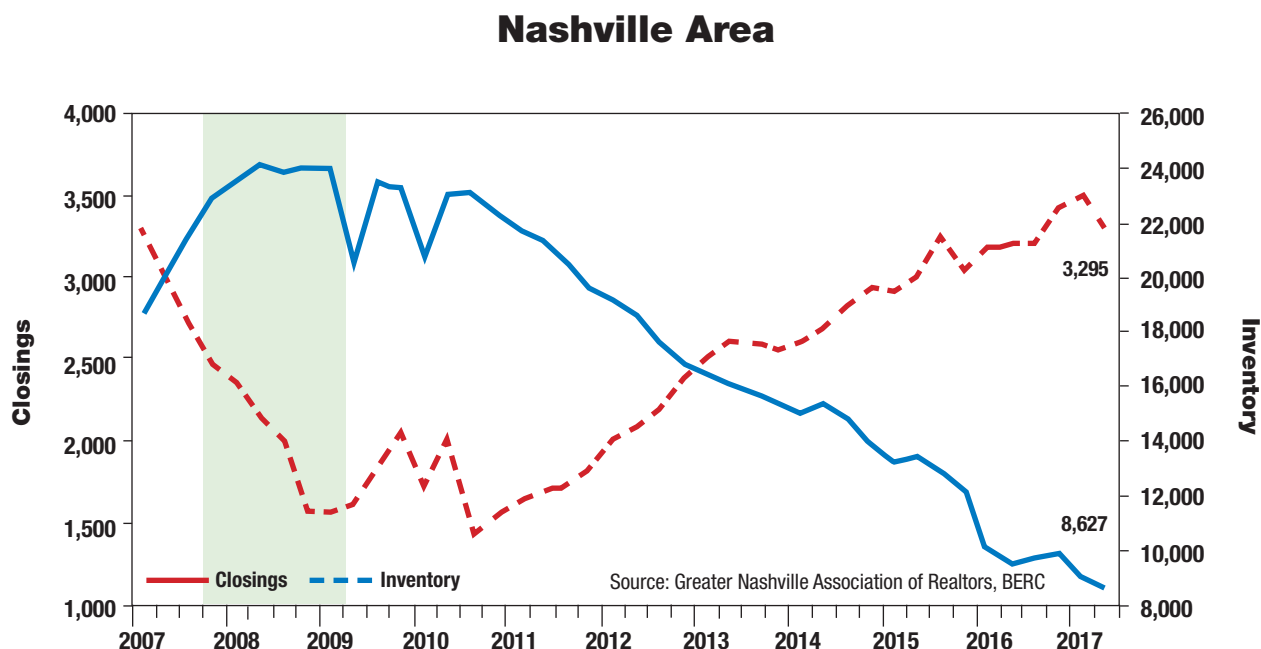
In all three geographies this report tracks, the number of home closings decreased or remained relatively unchanged. Closings in the Nashville area dropped 6 percent, while Knoxville and Memphis closings fluctuated less than 1 percent. Inventories declined in all three regions, falling 6 percent in Knoxville, 5 percent in Nashville, and 2 percent in Memphis.

Over the year, the number of closings and inventories showed improvement, particularly in the Knoxville and Memphis regions. Closings were up 5 percent

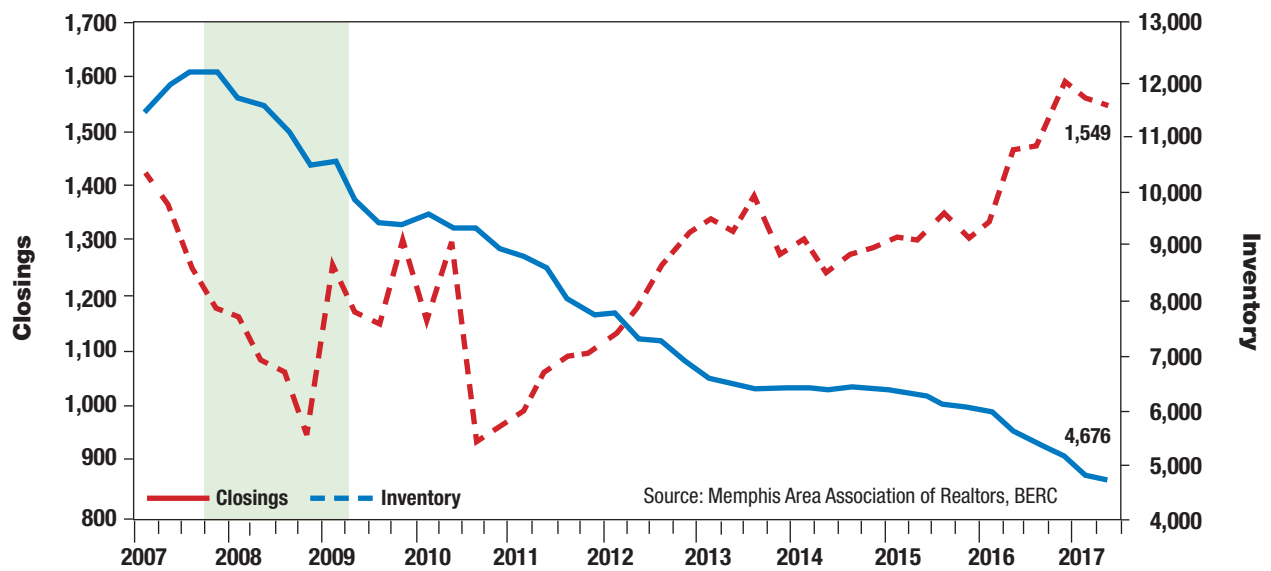
in Knoxville and 6 percent in Memphis. Similarly, inventories were down 19 percent in Knoxville and 16 percent in Memphis. In the Nashville area, closings were up 3 percent and inventories down 10 percent.

*** In June 2017, RealTracs Inc., the regional multiple listing service through which the Greater Nashville Association of Realtors (GNAR) obtains market statistics, adjusted its statistical reporting to more accurately reflect market activity. Adjustments to historical statistical data have been made for 2016 and 2017 for Nashville area data.**

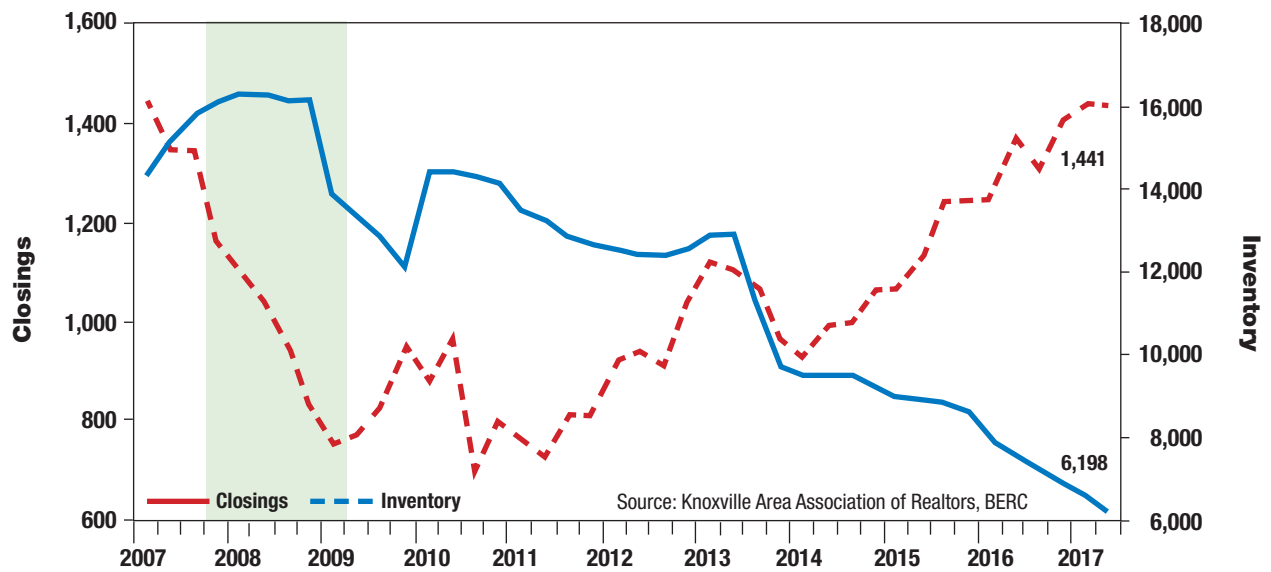
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Housing prices increased over the year in all geographies tracked in this report.

Housing prices in all geographies tracked by this report increased since the second quarter of 2016. Major areas of increase include Nashville, up 10.3 percent; Chattanooga, up 7.9 percent; and Memphis, up 6.4 percent.

Home prices in two MSAs increased substantially over the first quarter of 2017: Chattanooga, at 4.2 percentage points, and Morristown. On the opposite end, home prices in the Clarksville and Jackson MSAs decreased from the previous quarter.

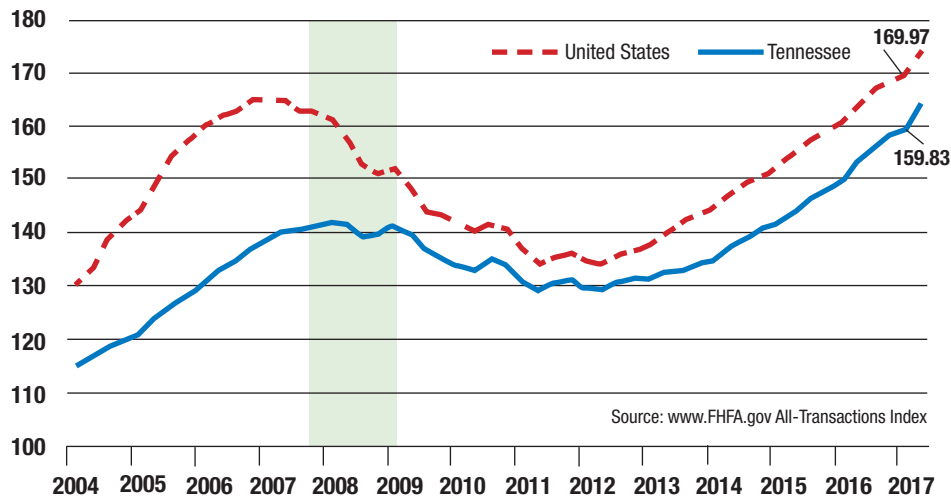
Table 3. Change in housing prices year to year

Area	2015.3–2016.3	2015.4–2016.4	2016.1–2017.1	2016.2–2017.2
Chattanooga MSA	3.7%	2.8%	3.8%	7.9%
Clarksville MSA	3.5%	4.4%	6.1%	1.7%
Cleveland MSA	2.0%	3.3%	4.2%	4.9%
Jackson MSA	6.2%	1.7%	5.5%	2.5%
Johnson City MSA	4.5%	2.3%	2.6%	4.7%
Kingsport-Bristol MSA	2.6%	1.9%	2.9%	3.8%
Knoxville MSA	4.3%	5.1%	4.7%	5.1%
Memphis MSA	4.8%	5.0%	4.8%	6.4%
Morristown MSA	6.6%	1.9%	2.5%	4.9%
Nashville MSA	9.3%	10.0%	10.1%	10.3%
Tennessee	6.6%	7.0%	6.3%	7.5%
United States	5.8%	5.8%	5.7%	6.4%

Source: FHFA All-Transactions Index

For the quarter, housing prices increased substantially in Chattanooga and Morristown but decreased in Clarksville and Jackson.

Figure 8. Tennessee FHFA house price index (2000 = 100.0)



Housing prices in all geographies tracked by this report increased since the second quarter of 2016.

Mortgage Delinquencies, Foreclosures

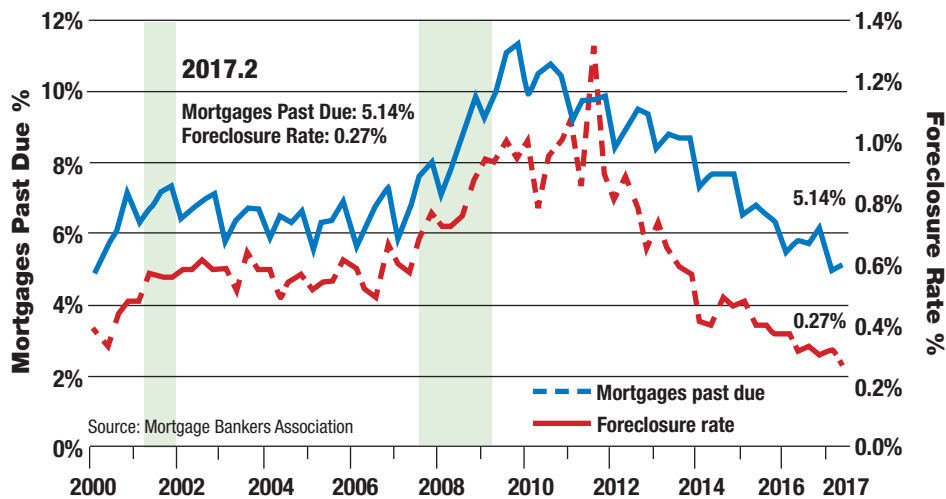
The current Tennessee foreclosure rate is the lowest reported in over 17 years.

In Tennessee, mortgages past due showed a slight uptick, increasing 0.20 percentage points to 5.14 percent this quarter. Over the year, mortgages past due fell 0.65 percentage points. On the other hand, the state's foreclosure rate fell 0.05 percentage points to 0.27 percent for the quarter. The current foreclosure rate is the lowest reported in over 17 years.

For the United States as a whole, mortgages past due fell to 4.24 percent from 4.33 percent in the first quarter of 2017. The current rate of mortgages past due is the lowest since the first quarter of 2006. The foreclosure rate for the country is comparable to Tennessee's at 0.26 percent—also the lowest rate in over 17 years.

Figure 9. Tennessee mortgages past due and foreclosure rate

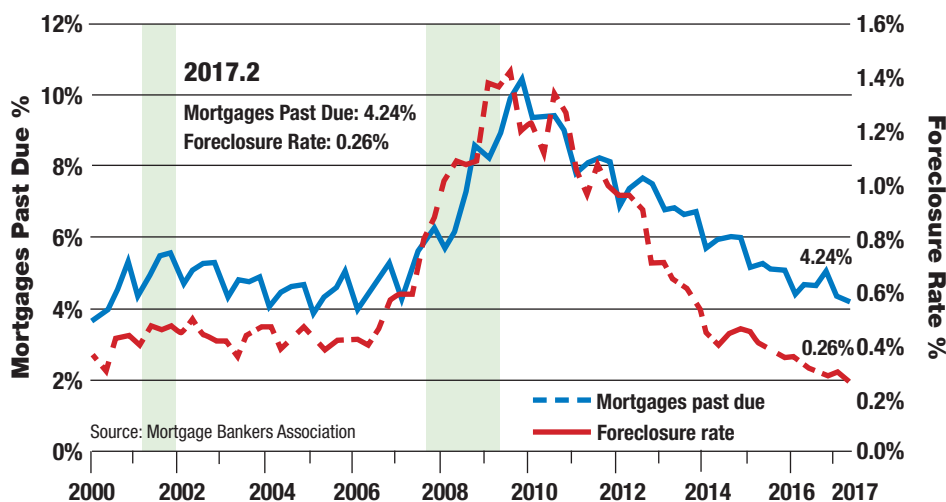
(percent of mortgages in place)



Tennessee mortgages past due increased slightly for the quarter but fell over the year.

Figure 10. United States mortgages past due and foreclosure rate

(percent of mortgages in place)



The nation's foreclosure rate of 0.26 percent is comparable to Tennessee's—the lowest in over 17 years.

Conclusion

By all indicators, the housing market in Tennessee is strong and growing.

Foreclosures for both the state and the nation are at historically low rates. Home prices continue to rise in all areas tracked by this report. The vacancy rates for both homeowners and renters are decreasing, while the amount of new construction permits is increasing.

Along with increasing mortgage and real estate transfer tax collections, this illustrates a strong, growing housing market in Tennessee. ■



JONES COLLEGE OF BUSINESS
Business and Economic Research Center

Murat Arik, PhD, PDBP, Director

Supported by



Glossary

Home Closings/Inventory.

Number of houses sold/number of houses with active listings. A high number of closings and a low number of inventories would demonstrate a positive step for the economy. (Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, and Knoxville Area Association of Realtors)

Homeowner/Rental Vacancy Rate.

Number of vacant units divided by total number of units. A high vacancy rate indicates poor market conditions, a low one strong market conditions. (Source: Census Bureau)

Labor Force.

All persons employed and unemployed but actively looking for a job. Net changes in number of people employed and unemployed are important gauges of the health of the U.S. job market. (Source: Bureau of Labor Statistics)

Mortgage/Real Estate Transfer Tax Collections.

Amount of taxes collected for realty transfers and mortgages, which together account for a large portion of privilege taxes. (Source: Tennessee Department of Revenue)

Mortgages Past Due and Foreclosures Started.

Percentage of mortgages past due and percentage of new foreclosures started, indicating individuals in financial distress. (Source: Mortgage Bankers Association)

Single/Multi-Family Home Permits.

Level of new single- and multi-family housing construction. Housing permits can be early indicators of housing market activity. New residential housing construction generally leads to other types of economic production. (Source: Census Bureau)

Total Nonfarm Employment.

Total number of paid U.S. workers of any business, excluding government, farm, nonprofit, and private household employees; one of the key economic statistics used to analyze whether the economy is expanding or contracting. (Source: Bureau of Labor Statistics)

Unemployment Insurance Claims.

Weekly average layoff figures. The smaller the number, the better the economy is performing. (Source: U.S. Department of Labor)

Unemployment Rate.

Percentage of unemployed individuals divided by the labor force, a determinant of future conditions, used to determine overall economic health. (Source: Bureau of Labor Statistics)